CANADIAN MARCONI COMPANY

Annual Report 1997-1998

Canadian Marconi Company

Canadian Marconi Company (also referred to herein as "CMC" or the "Corporation") is a recognized world leader in the design, manufacture, sale and support of high-technology electronic products for the aerospace and communications markets.

CMC is a publicly held Canadian corporation, with The General Electric Company, p.l.c. (GEC) of the United Kingdom holding 51 per cent of outstanding shares. CMC shares are traded on the Montreal, Toronto and American stock exchanges.

The Corporation's headquarters and principal design and manufacturing facility is located in Ville Saint-Laurent, Quebec. CMC's facilities include a branch plant in Kanata, Ontario, as well as sales and service offices across Canada. A network of CMC sales and service agents and representatives complements its support activities worldwide. CMC's capabilities in product development, sales and systems support are broadened by its Canadian subsidiary NovAtel Inc. of Calgary, Alberta; and its U.S. subsidiaries Cincinnati Electronics Corporation of Mason, Ohio; and Northstar Technologies, a division of CMC Electronics, Inc., of Acton, Massachusetts.

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS WILL BE HELD AT:

The Queen Elizabeth Hotel
900 René-Lévesque Boulevard West
Montreal, Quebec
on Thursday, August 20, 1998
at 11 a.m.

To obtain a copy of the Annual Information Form, please send your request to the Secretary of the Corporation.

Pour obtenir une copie française de ce rapport annuel, prière d'adresser votre demande au bureau du secrétaire de la Société.

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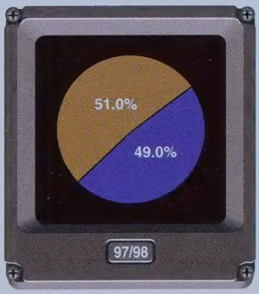
Financial Highlights

Year ended March 31 (in thousands of dollars except as otherwise stated)	1998	1997	1996	1995	1994	1993
Revenues	$ 291,544	$ 257,768	$ 251,489	$ 250,353	$ 289,835	$ 294,069
Net income	28,003	4,974	9,100	4,695	29,519	23,971
Dividends	3,374	3,355	-	5,053	6,669	6,657
Shareholders' equity	381,988	354,977	350,349	343,135	342,406	311,507
Working capital	324,723	297,023	281,402	260,039	272,852	258,148
Number of employees	1,555	1,553	1,546	1,702	1,968	2,258
Number of shares (in thousands)	24,113	24,074	23,938	23,938	23,912	23,779
Per share data (in dollars)						
Net income	1.16	0.21	0.38	0.20	1.23	1.01
Dividends	0.14	0.14	-	0.21	0.28	0.28
Shareholders' equity	15.84	14.75	14.64	14.33	14.32	13.10
Market price range (in dollars)						
High	27.00	18.50	15.63	17.50	17.25	16.88
Low	17.60	12.25	11.88	12.70	13.00	12.75
Close	20.30	18.25	13.63	13.13	16.13	14.25

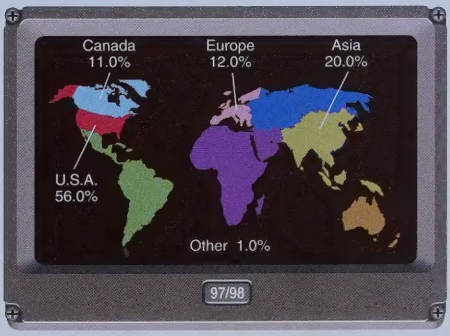
Sales Distribution



Military

Commercial

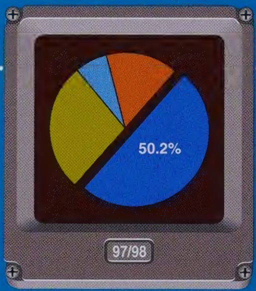
Geographic Sales Distribution



Canadian Marconi Company

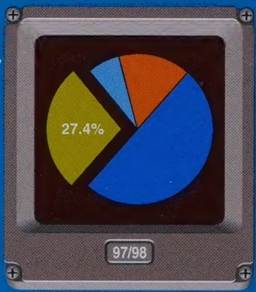
Canadian Marconi at a Glance

Aerospace



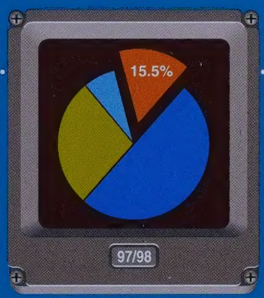
- Airborne satellite communications antennas
- Aircraft navigation systems and sensors
- Avionics and flight management systems
- Cockpit display systems
- Flight termination receivers
- Global Positioning System (GPS) units for ground stations and related software
- Human factors engineering
- Infrared imaging systems
- Infrared missile warning systems
- Spacecraft transmitters and transponders
- Systems integration

Communications



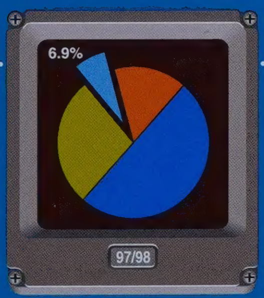
- Antenna signal processors for the commercial wireless industry
- Canadian resale, distribution and servicing of: electronic test equipment; marine and land communications systems; and industrial security systems
- Facsimile switching systems
- Multi-channel line-of-sight and electronic counter-countermeasures radios and ancillaries
- Secure satellite communications radios
- Tactical communications sub-systems
- Tactical information distribution systems
- Tactical multiplexers and digital circuit switches

Electronic Components



- Circuit packaging
- Contract manufacturing
- Display components and panels
- GPS receivers for original equipment manufacturers
- Hybrid microcircuits
- Infrared detectors
- Power conversion and magnetics products

Surface Transportation

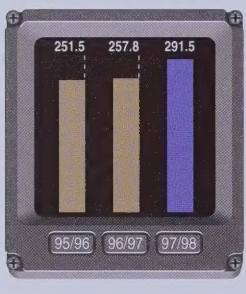


- Marine GPS navigation and geographic information systems

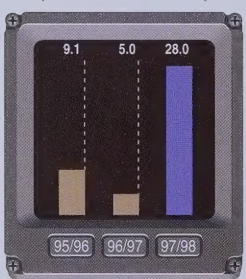
Report to Shareholders

In fiscal 1998, Canadian Marconi Company was successful in providing innovative products to serve customers' needs worldwide, while pursuing its strategy to focus on core product areas.

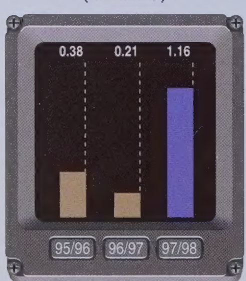
Total Revenues
(in millions of dollars)



Net Income
(in millions of dollars)



Net Income Per Share
(in dollars)



CMC's success is reflected in the 1998 financial results. Revenues, operating income and earnings per share all increased, compared to the previous year. Revenues increased by 13% to $291.5 million in fiscal 1998, compared to $257.8 million in the previous year. Operating income increased to $27.0 million in fiscal 1998, compared to $18.3 million last year before unusual charges associated with CMC's facsimile switching products. Fiscal 1998 net income ended the year at $28.0 million or $1.16 per share, compared to $5.0 million or $0.21 per share in fiscal 1997.

Strong growth in the Corporation's commercial markets continued, with substantial increases in commercial revenues, principally due to increased sales of the satellite communications (Satcom) antenna, the Global Positioning System (GPS)-based Flight Management System as well as Northstar Technologies' GPS-based airborne and marine navigation systems. Activity in the commercial avionics business was intense during the year, with a record number of Flight Management System deliveries and new orders. CMC's leadership was confirmed in the airline high-gain Satcom market, where it holds the majority market share.

Deliveries under a number of long-term military production contracts in fiscal 1998 helped to maintain the Corporation's military revenues at last year's levels, while contributing to the increase in operating profits over last year. However, certain orders anticipated this year have been delayed, contributing to a reduction in order backlog from $205 million at March 31, 1997, to $178 million at March 31, 1998. While this reduction has forced the Corporation to reduce its sales outlook for fiscal 1999, management continues to aggressively pursue these opportunities.

Cincinnati Electronics Corporation (CE) and Northstar Technologies continued to improve their performance in fiscal 1998. CE posted increased revenues for its space electronics products, primarily due to continuing market acceptance of its launch vehicle product lines and spacecraft telemetry transmitters. The introduction of CE's infrared cameras in a wider range of high-performance commercial, industrial and military markets also contributed to their increased revenues. Northstar Technologies continued to hold a dominant position in the marine market, and is expanding in the GPS avionics and agriculture markets. To support this growth, Northstar will double its leased space in fiscal 1999.

Last year, it was necessary to write down goodwill and record certain contractual and restructuring provisions for the Corporation's facsimile switching products. Significant progress was made during the year to resolve problems inherent in earlier product software releases and satisfy contractual obligations.

Customer support activities have now been consolidated in CMC's Kanata, Ontario, facility from Reston, Virginia, to provide maintenance and support services for these products.

CMC has maintained its strong commitment to Research and Development (R&D), spending $26.7 million in fiscal 1998, compared to $25.3 million in fiscal 1997. The Corporation will accelerate the pace of innovation in state-of-the-art products, with a larger proportion of research and development funds being devoted to commercial aerospace and communications markets.

OUTLOOK

At the Annual Meeting of Shareholders of Canadian Marconi Company on August 21, 1997, The General Electric Company, p.l.c. (GEC), the Corporation's majority shareholder, announced that it would review its ownership position. In February 1998, GEC announced to the Corporation's Board of Directors that its strategic review was complete and that it intends to maintain its investment and continue to work with the management of Canadian Marconi Company to leverage the strengths of the Corporation and other GEC operations, to further enhance shareholder value. This decision by GEC is consistent with its previously announced strategy to grow its presence in North America, in its core markets of aerospace and defence.

Over the past year, the CMC management team has pursued its integrated strategy for growth, to exploit both the Corporation's current technological strengths and established positions in the aerospace and marine markets. In this pursuit, CMC intends to provide increasingly sophisticated integrated communications and navigation systems, and expand the range of specialty components produced in support of these markets. Satellite-based navigation and communications are key growth markets where CMC can take advantage of its core technologies and skills.

Having identified the Global Positioning System as the cornerstone of its integrated strategy for growth, CMC acquired an equity controlling interest of approximately 58% on April 17, 1998, in NovAtel Inc. (NovAtel) of Calgary, Alberta, the shares of which are publicly traded on the NASDAQ stock market. This acquisition augments CMC's alliance with NovAtel announced in October 1997, to develop and bring to market a new-generation certified airborne GPS receiver. As well, it strengthens the Corporation's strategic focus on integrated communications and navigation systems.

NovAtel designs, markets and supports a broad range of products that determine precise geographic locations using GPS. NovAtel's GPS products are used principally for applications in high-end markets such as surveying, geographic information systems, aviation, marine, mining, machine control and agriculture. NovAtel is a recognized technology leader in terms of high-performance, high-accuracy, very reliable and very flexible GPS receivers. CMC's strength is in GPS embedded application products, coupled with a long-standing capability in system integration and packaging.

The market for high-end GPS products is projected by industry sources to continue to grow at 20% to 30% per year, based on growth in the surveying and geographic information system markets. In addition, new applications are emerging in precision agriculture, machine control, marine and aviation. By leveraging the technology and market positions of both companies, this acquisition will increase value for both CMC and NovAtel shareholders. Together, the two companies will be in a stronger position to penetrate new markets, by producing more end-user products more rapidly and accelerating the pace of innovation in GPS technology.

CMC has identified a number of other opportunities that will accelerate entry in selected market segments, which will complement its current market position and technologies. The Corporation is well positioned to grow the business and maximize the returns for shareholders through internal development, strategic alliances, joint development programs and further acquisitions.

In fiscal 1999, the Corporation's priorities will be focused on moving forward in its strategic plan, leveraging the opportunities from the NovAtel acquisition, securing delayed military orders and improving profitability, despite the reduced sales outlook. These challenges will be met through a solid commitment to research, the effective introduction of new products and the successful marketing of existing products in CMC's target markets, and continued investment in CMC's core businesses. The Corporation's commitment to continuous improvements in productivity and organizational

effectiveness will be led in fiscal 1999 by the implementation of a new business information system. In addition, the Corporation will be introducing value-based management training in fiscal 1999, providing a further tool to align shareholder value creation to CMC's internal decision-making process.

CORPORATE GOVERNANCE

The Corporation seeks to attain high standards of corporate governance. The Board of Directors considered the corporate governance guidelines adopted by both the Toronto and the Montreal stock exchanges and believes that it is in alignment therewith.

The Nominating and Corporate Governance Committee was established with the mandate to oversee and monitor compliance with the guidelines. Please refer to the Corporation's Management Proxy Circular for a description of the Corporation's corporate governance practices.

DIRECTORS AND MANAGEMENT

In February 1998, the Board of Directors announced that Mr. Carmen L. Lloyd, President and CEO, had advised them of his intention to leave the Corporation at the end of March 1998, to pursue other career opportunities. The Board of Directors takes this opportunity to thank Mr. Lloyd for his contributions and the positive direction provided throughout his employment.

In February 1998, Mr. Mark H. Ronald, President of GEC-Marconi North America, Inc., was appointed a director of the Corporation. The Board of Directors extends its appreciation to Mr. Ronald for working closely with the management of the Corporation during the transition to a new President and CEO.

In May 1998, Mr. William I.M. Turner, Jr., Chairman of the Board of Canadian Marconi Company, announced the appointment of Mr. W. James (Jim) Close as President and Chief Executive Officer of Canadian Marconi Company, effective July 1, 1998.

Mr. Close has been President of AlliedSignal Aerospace Canada Inc., based in Toronto, since 1996. Previously, he spent eight years with AlliedSignal in the United States, in a variety of operations and general management roles. His prior career spanned 19 years in the U.S. with the Avco/Lycoming and Colt Industries organizations. Mr. Close has a Bachelor of Science degree in Industrial Engineering from Purdue University, Indiana, and an M.B.A. degree from the University of Bridgeport, Connecticut.

The Board of Directors acknowledges the outstanding contributions made by two directors who will retire this year. A director since 1967, the Honourable Ian D. Sinclair, O.C., Q.C., ably served as Chairman of the Defence Security Committee and as a member of the Nominating and Corporate Governance Committee. His vast experience, insight and counsel have been of great value to the management of the Corporation for more than three decades of innovation and change. Stephen A. Jarislowsky, O.C., has provided invaluable counsel to the Corporation since 1991, and rendered distinguished service as Chairman of the Nominating and Corporate Governance Committee and the Compensation Committee. His foresight and keen business sense were greatly appreciated by the Board.

The Board of Directors also acknowledges the contributions of Dr. Saul H.B. Lanyado, who retired in February 1998, having served as a director since 1996. Dr. Lanyado provided valued expertise in a variety of complex technological matters.

In reviewing the progress of the Corporation, it is critical to recognize the people responsible for this success. The employees throughout Canadian Marconi Company and its subsidiaries are to be thanked for their hard work and dedication. Above all, CMC is committed to satisfying its customers who rely on the Corporation and its products and services.

William I. M. Turner, Jr., C.M.
Chairman

May 28, 1998

Management's Discussion and Analysis

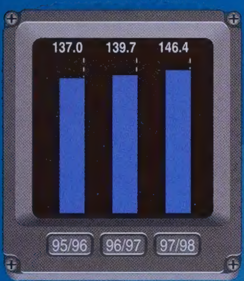
Canadian Marconi Company designs, manufactures and sells electronic products and systems, for both military and commercial applications, across a number of market segments. Consolidated revenues of the Corporation for the 1998 fiscal year were $291.5 million, compared to $257.8 million in fiscal 1997. This 13% increase is due primarily to robust growth in the Corporation's commercial markets.

Fiscal 1998 net income ended the year at $28.0 million or $1.16 per share, compared to $5.0 million or $0.21 per share last year after unusual item. Fiscal 1997 operating income was reduced by $16.3 million, due to the writedown of goodwill and other charges related to the facsimile switching business (see Note 9 to the Consolidated Financial Statements). The commercial revenue growth, combined with the delivery of certain high-margin military orders, increased pre-tax operating income to $27.0 million in fiscal 1998, compared to $18.3 million in fiscal 1997, before unusual item.

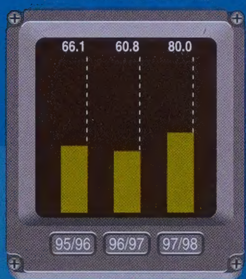
On April 17, 1998, the Corporation concluded the acquisition of a controlling interest in NovAtel, a leading GPS technology corporation located in Calgary, Alberta. As this acquisition occurred subsequent to CMC's March 31, 1998 year end, NovAtel's financial results are not included in these Consolidated Financial Statements (see Note 14 to the Consolidated Financial Statements).

The following discussion and analysis explains trends in the Corporation's operating results and financial condition for the year ended March 31, 1998. In particular, revenues are analyzed by the Corporation's primary market segments. The purpose of this analysis is to help shareholders and other readers understand the factors underlying the financial performance of the Corporation, including, where possible, those which may impact future results. The Consolidated Financial Statements and Notes to the Consolidated Financial Statements should be read as an integral part of this review.

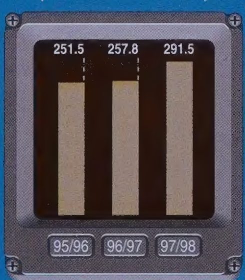
Aerospace
(in millions of dollars)

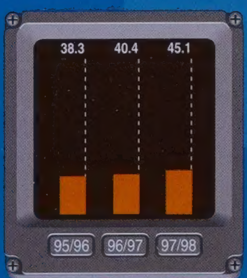


Communications
(in millions of dollars)



Total Revenues
(in millions of dollars)





Electronic Components
(in millions of dollars)

Surface Transportation
(in millions of dollars)

Aerospace revenues increased to $146.4 million in fiscal 1998, from $139.7 million in fiscal 1997. As reported last year, the transition from development to production of CMC's control and display systems for the U.S. Army UH-60Q program and CE's new infrared missile warning system, together with the completion of certain long-term production contracts, have reduced military aerospace revenues in fiscal 1998, compared to fiscal 1997. Growth in commercial avionics and space electronics has more than offset this decline, due primarily to the successful introduction of the CMA-900 Flight Management System (FMS).

The commercial aerospace market is characterized by the growing application of GPS technology, the need for high-quality, high-reliability products, compliance to regulatory changes and vigorous competition. Satcom antennas, airborne GPS sensors, airborne GPS navigators such as Northstar's M3 and CMC's Flight Management System, and CE's space transmitters and receivers, are the Corporation's primary product groups competing in this market.

The CMA-2102 Aero-H high-gain Satcom antenna continues to dominate its marketplace. Revenues increased significantly in fiscal 1998, with the installed market share increasing to over 60% from 50% last year. During the year, the Corporation saw a number of customers switch from competitors' products to the CMC antenna, such as Delta Air Lines, who are converting from side-mounted antenna technology to CMC's top-mount antenna for their new fleet. In fiscal 1998, over 70% of new wide-body aircraft from the Airbus factory and 50% from the Boeing factory were

fitted with a CMC Satcom antenna. While orders are expected to remain strong in the near term, in line with the robust commercial airline market, many North American customers have now introduced Satcom for their long-haul fleet of aircraft. The Corporation's next-generation intermediate-gain Satcom antenna, the CMA-2200, received both Inmarsat and Transport Canada approval and entered into production in fiscal 1998. This new product gives CMC access to the short-/medium-haul regional and corporate jet aircraft market, providing medium- and smaller-sized operators access to Satcom services over wide areas, using a smaller, economical antenna. In addition to leveraging its existing technical and market position, the Corporation entered into an exclusive supply agreement with Honeywell to increase its market access.

In commercial avionics, the GPS sensor, which is sold principally through Honeywell, maintained its leading 70% market share in fiscal 1998, with revenues remaining at last year's levels. GPS sales are expected to remain constant in fiscal 1999, as CMC diversifies into SCAT-1 ground station and airborne receivers as well as certified GPS cards for embedded applications. Following the NovAtel acquisition on April 17, 1998, an agreement has been reached with Honeywell for the development and supply of next-generation GPS receivers and sensors, to be integrated in Honeywell's Local Area Augmentation System (LAAS) and in their business and commuter aviation products, enabling aircraft to meet Category I, II and III landing requirements. This development will be undertaken jointly by CMC and NovAtel.

Satellite Communications (Satcom) Antennas

- **Canadian Marconi's CMA-2102 continues to be the most popular Satcom high-gain antenna in the airline market, with over 60% market share. Eleven new airlines have joined the customer list, which totals 40 airlines and several corporate/VIP and military customers.**

- **Delta Air Lines and Continental Airlines, the last North American operators to introduce Satcom for their long-haul aircraft, have selected the CMA-2102 for their B777 and B767-400ER fleets. Delta Air Lines switched from side-mounted technology to the Canadian Marconi CMA-2102 top-mount antenna for their new fleet.**

- **Development of the CMA-2200 Aero-I intermediate-gain Satcom antenna is complete. The new antenna received both Inmarsat and Transport Canada approval, and is in production for Boeing's next generation of B737 aircraft.**

- **Inmarsat's Aero-I service was developed to meet the communications requirements of short-/medium-haul aircraft and business jets. To reach this new market, Canadian Marconi has signed an agreement with Honeywell to supply the CMA-2200, on an exclusive basis, for the new Honeywell/Racal Aero-I Satcom system.**


courtesy of Honeywell

Aircraft Navigation and Flight Management Systems

• Market share for the GPS-based CMA-900 Flight Management System has doubled from 13% to 26% of the retrofit air transport market during the fiscal year.

• The CMA-900 has been certified on all types of jet air transport aircraft, including Boeing (B707, B727, B737 and B747), Douglas (DC-9 and MD-80) and Airbus (A-300) aircraft.

• Successful flight tests were completed for the KLM Royal Dutch Airlines B747 cockpit modernization program, for which Canadian Marconi will integrate its triple CMA-900 installation with new electronic instruments and modern laser-based inertial equipment. The program is on schedule, with deliveries scheduled to commence in the fall of 1998.

• Follow-on orders to upgrade the avionics for other wide-body aircraft were received from AOM for its fleet of DC-10 aircraft and Air France Industries for B747s.

• Canadian Marconi has supplied the ground station GPS receiver in North America's first commissioned Special Category 1 (SCAT-1) Differential GPS (DGPS) landing system for Honeywell. FAA Supplemental Type Certification of Canadian Marconi's airborne DGPS receiver has been achieved for specific aircraft models. The airborne SCAT-1 DGPS receiver obtains correction data from the ground station to provide aircraft with the less than one meter position accuracy required for SCAT-1 landing.

• Northstar Technologies' primary avionics product, the M3 GPS Navigator, continued to set the standard for ease of use and reliability, and was adopted by two major aviation universities as a training standard.

• For the third year, *Professional Pilot* magazine ranked Northstar first in customer service among 18 competitors, in its annual survey of readers.

The Corporation's FMS recorded significant revenue growth in fiscal 1998, gaining market share in the retrofit market, which was stimulated by the September 1997 decommissioning of Omega ground stations and the airlines' need to meet higher standards of navigation accuracy. Over 35 airlines have ordered the FMS for the retrofit of a large variety of aircraft types. Particular interest among wide-body operators is being generated by CMC's success with the KLM B747 cockpit modernization program.

Many airlines with "classic" B747 and DC-10 aircraft have shown interest in the system for their fleets. In general aviation, Northstar's M3 revenues also increased in fiscal 1998. Ease of use, reliability and the ability of the M3 to directly replace Northstar's M1 Loran-C Navigator, of which there are over 17,000 in the field, have driven sales, in anticipation of the shutdown of Loran-C in the year 2000.

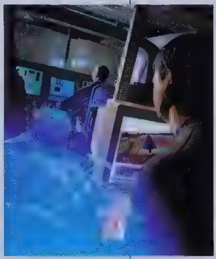
Space electronics maintained its strong revenue growth in fiscal 1998, due to continued production deliveries of telemetry transmitters for the Atlas and Titan launch vehicles, combined with sales associated with customer funded engineering development for the Delta Launch Vehicle Transmitter. Increases were also associated with a cost reimbursable engineering development contract for the new-generation Tracking and Data Relay Satellite System (TDRSS) Transponder, for earth orbiting spacecraft. As these development programs are nearing completion, and production sales will take more than a year to materialize, space electronics revenues are expected to remain constant in fiscal 1999, before resuming their growth in fiscal 2000. CE continued to dominate the Flight Termination Receiver (FTR) market. CE's FTRs were flown on all 38 U.S. space launches and three missile test flights in fiscal 1998, compared to 33 and seven, respectively, in fiscal 1997.

The Corporation's primary product groups serving the military aerospace market include navigation, display and cockpit management systems (CMS), missile warning systems and infrared imaging systems. While the characteristics of this market are similar to commercial aerospace, budget constraints are reducing new avionics equipment purchases in favour of retrofit programs, extending the service lives of assets, while providing newer technology to the end-user.

Aircraft Navigation, Control and Display Systems

• CMC has been working closely with Sikorsky Aircraft to provide a fully qualified, integrated navigation and communications capability via the CMC Avionics Management System, for the U.S. Army UH-60Q Black Hawk Medical Evacuation helicopter. Once final aircraft acceptance of the first four helicopters is received from the U.S. Army, initial new production and retrofit orders are expected in fiscal 1999.

• CMC delivered the 100th and final cockpit management system for the Canadian Forces Griffon helicopter program. The CH-146 Griffons were deployed extensively by the Canadian Armed Forces during the Red River, Manitoba, floods in the spring of 1997 as well as the January 1998 Quebec ice storm disaster.



• The Human Factors Engineering team has completed several projects in enhanced vision systems and improved workload modeling tools. CMC designed and built an Aircraft Crewstation Demonstrator for the Canadian Department of National Defence. This facility integrates controls, flight models of various aircraft types, cockpit displays, instrument panels and models of an external scene.

• CMC received a follow-on order to supply 104 GPS Interface Shipsets, which are a key element in the avionics system on board the HC/KC-130 aircraft operated by the U.S. Navy and Coast Guard.

• CMC is developing the CMA-2082D cockpit management system, based on active matrix liquid crystal display colour (AMLCD) technology, to target several upcoming European launch programs for cockpit management system upgrades.

• CMC's latest-generation Doppler radar sensor, which was selected for the Eurocopter Tiger helicopter program, is currently in production planning, with initial orders expected in fiscal 1999. CMC also secured an order for this product in a new market niche and began deliveries to Advanced Technologies & Engineering Co., for the Rooivalk helicopter produced by Denel Aviation of South Africa.

In North America, the upgrade of cockpits with CMS has been driven by customers' plans to insert GPS technology in military platforms. CMC's largest success in this market was its selection by Sikorsky in fiscal 1997 to integrate navigation and communications for the U.S. Army UH-60Q helicopters. This development program was completed in fiscal 1998, and initial orders for new production and retrofit equipment are expected in fiscal 1999. Expansion into worldwide UH-60 retrofits is expected in the near term, leveraging the Corporation's position as a supplier of cockpit instruments for the Black Hawk helicopter since the 1970s. Opportunities for further CMS retrofits will be largely outside North America, where the next wave of GPS upgrades is being implemented. This market is demanding CMS suites, which include control display units, large multi-function displays based on AMLCD colour technology and advanced processor boxes. In response, CMC is completing the development of an AMLCD colour display unit and several European launch programs are being pursued, with initial production orders anticipated in fiscal 1999. This transition has, as expected, reduced revenues from CMC's mature military avionics products, compared to last year.

Revenue from CE's infrared (IR) missile warning system declined in fiscal 1998, as the program shifted from a cost reimbursable phase, where sales occur as costs are incurred, to a fixed price production phase, where sales are recognized on delivery. The contract for the production of retrofit kits was awarded in the fourth quarter of fiscal 1998, and deliveries will not commence until the final quarter of fiscal 1999.

Led by international sales of the Nightmaster, CE's portable, long-range reconnaissance IR imager, infrared imaging revenues increased in fiscal 1998, as they have every year in the eight years since the product was launched. Further increases are expected in fiscal 1999, augmented by a recent order to adapt CE's newest imager to a U.S. Army laser designator rangefinder system.

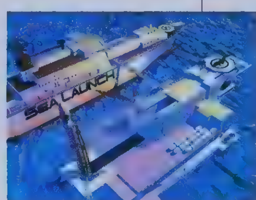
Space Electronics Products

- **Cincinnati Electronics (CE) continues to be the leading supplier of Flight Termination Receivers for all major U.S. launch vehicles including Atlas, Athena, Delta, the Space Shuttle, Taurus and Titan.**

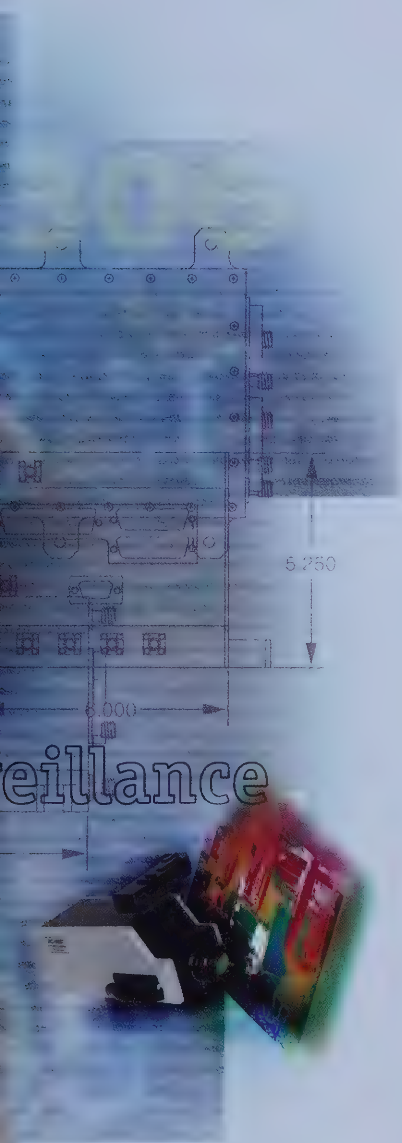
- **CE's high-frequency Data Acquisition Unit (Model DTP-503) had its maiden voyage aboard an Atlas IIAS launch vehicle. The unit successfully gathered launch vehicle performance data which it supplied to CE's Telemetry Transmitter (Model T-705).**

- **The Student Nitric Oxide Explorer Satellite was placed in orbit and features CE's S-Band Transponder (Model TTC-306/701), which provides the communications link with the satellite.**

- **CE was awarded a contract to supply telemetry transmitters for the new Boeing Sea Launch vehicle, with deliveries to begin in fiscal 1999.**



courtesy of Boeing



Infrared Systems and Components

- Following an extensive competition, Cincinnati Electronics was selected by Litton Systems, Inc., Laser Systems Division, of Orlando, Florida, to provide the thermal sensor for the new Lightweight Laser Designator Rangefinder. The first phase of the program covers engineering development, leading to production quantities, which are projected to be about 1,200 systems over the next five years. This contract represents the first front line military use of CE's new 640 x 512 Indium Antimonide 2D focal plane arrays. The CE infrared sensor is a major component in the Target Locator Module, which will be used by the U.S. Army and Marine Corps ground forces. The module provides accurate, 24-hour precision location and target designation capability for today's modern, "digitized battlefield".

- Versatron, Inc. has awarded Cincinnati Electronics a follow-on contract to supply infrared sensors for Versatron's Model 12 stabilized gimbal. The Model 12 is sold to military and civilian users, and was selected by the U.S. government for a military unmanned aerial vehicle program, which totalled 22 systems, with an option for an additional 40 systems. The 256 x 256 Indium Antimonide 2D focal plane arrays and supporting electronics are gaining wide acceptance in the law enforcement community, where the Model 12 is usually mounted on a helicopter for airborne surveillance and monitoring activities. Versatron is a wholly owned subsidiary of Wescam, Inc. of Flamborough, Ontario.

- CE received a production contract to provide upgrade kits to extend the performance of the existing AN/AAR-44 Missile Warning System on U.S. Air Force Special Operations Command C-130 aircraft. CE has been the world's leading supplier of infrared missile warning systems for the past forty years, and developed the original AN/AAR-44, starting in 1986.

Communications revenues increased to $80.0 million in fiscal 1998 from $60.8 million in fiscal 1997, benefitting from the delivery of certain military radio orders received last fiscal year. However, new orders in fiscal 1998 were below expectations, as the military market continued to exhibit uncertainty and delays in certain projects. Due to the long-term nature of military programs, deliveries under new contracts anticipated for award in fiscal 1999 will only occur in subsequent fiscal years. As a result, fiscal 1999 communications revenues are expected to decline.

The primary product group serving the military communications market is tactical line-of-sight radios. The mature line-of-sight radio market is shifting, as customer requirements move to satellite-based communications and wireless products, with more efficient use of spectrum and higher transmission rates. In the U.S., in particular, these requirements are being driven by the Department of Defense initiative for a "digitized battlefield". The Corporation is attempting to evolve its products to meet these new requirements, leveraging on its installed base of some 10,000 line-of-sight radios in the U.S. Armed Forces. CMC also has an installed base of over 10,000 multi-channel radios outside of the United States. In fiscal 1998, program opportunities in overseas markets were delayed, particularly in Asia, due to financial conditions and changing political priorities. The Corporation believes that these markets can provide opportunities for mature and new radios, as customers require more capacity or replacements for older equipment.

In fiscal 1998, revenues from the IRIS Radio Relay Vehicle program remained at last year's levels, while system and qualification testing was completed. Full-scale production of 44 vehicles is now under way, with deliveries scheduled to commence in fiscal 1999.

Tactical Communications

- **The AN/GRC-512(V) radio has passed two major evaluations as one of three participants in a comparative test program funded by the U.S. Army. The evaluation was organized to verify the compatibility of this advanced radio with the U.S. Army's Mobile Subscriber Equipment (MSE) mobile telecommunications system. A successful overall evaluation is expected to lead to future sales in overseas countries in which MSE networks are being procured.**

- **Deliveries were completed for several major contracts to supply the AN/GRC-103 line-of-sight radio and TD-5064 multiplexer for the international air defence Patriot system. CMC also secured a contract with a new customer in the U.S. Navy for a derivative of the multi-channel AN/GRC-226(V) radio.**

- **CMC completed a major automatic test equipment sub-contract to provide a depot level capability for the test and repair of the AN/GRC-226(V) radio for an international customer.**

- **In military exercises with the U.S. Army Aviation Command, CMC successfully demonstrated the operational flexibility of its Audio Monitoring System, which provides intercommunication facilities with voice and data on an integrated fibre-optic local area network. Some of the new markets which CMC is addressing are the U.S. Army's digitization initiatives for tactical operations centers and command posts.**

- **CMC's system design and integration skills were showcased in the IRIS Radio Relay Vehicle program for the Canadian Armed Forces. For this project, CMC designed, developed and qualified a system comprising vehicles, generators, shelter assemblages, radios with masts and antennas, and other electronic equipment.**

- **CMC is developing a high-power Cosite Interference Cancellor in response to a serious interference problem on military command and control vehicles, caused by the co-location of tactical radios. Given the U.S. Army's plan to digitize the battlefield and the deployment of up to 6,000 vehicles which is under way, one of the U.S. Army's priorities is to find a solution to the cosite problem.**

Commercial Communications

• CMC has consolidated its position to become the leading distributor of electronics in the Canadian marine market, with sales offices from coast to coast. In addition to supporting the Northstar GPS product line in Canada, CMC distributes the product lines for many of the leading suppliers of marine electronics. Applications range from recreational boating, to high seas and government requirements.

• CMC delivered the Integrated Bridge Navigation Systems for the first of three high-speed catamaran ferries for BC Ferries and received the release to supply equipment for the second vessel.

• The team of CMC and Data Marine Services of Scotland won a contract to supply electronic equipment and on-going service for the Terra Nova Floating Production, Storage and Offloading system.

courtesy of Terra Nova Development

• The first major sale, in Europe, was achieved of the CMA-2032 Antenna Signal Processor, an interference canceller that protects radio base station receivers from co-channel and adjacent channel interference. These are the first systems delivered by CMC for operation in the Nordic Mobile Telephone cellular system, operating in the 450 MHz frequency range.

• Growth in demand for commercial wireless communications in the Asia-Pacific region has led to opportunities for the Antenna Signal Processor in the Philippines, Malaysia and Japan.

• The CMA-2039 Interference Canceller, a single-processor, economical version of the CMA-2032, was introduced to target the rapidly growing private mobile radio and specialized mobile radio markets.

The Corporation's commercial communications revenues remained at last year's levels, derived primarily from its Canadian resale and distribution products and facsimile switching products.

CMC has consolidated its position to become the largest distributor of electronics in the Canadian marine market, including product lines for many leading suppliers such as Raytheon, Anschutz, Skanti, Apelco and Autohelm. This market is experiencing a technology shift from analog to digital marine electronics, resulting in shorter product life cycles and

increasing rates of product improvements. Combined with the strong Canadian economy, this trend offers CMC an opportunity to leverage its market position for future growth.

Last year, it was necessary to take certain unusual charges (referred to in Note 9 to the Consolidated Financial Statements), due to various technical and contractual issues in the facsimile switching business. Significant progress was made during the year to resolve problems inherent in earlier product software releases and satisfy contractual obligations. Product development and customer support activities have now been consolidated in the Corporation's Kanata, Ontario, facility from Reston, Virginia.

BC Ferries visual courtesy of CFI
(Catamaran Ferries International)

Electronic Components revenues increased to $45.1 million in fiscal 1998, compared to $40.4 million in fiscal 1997, due, in part, to the continuing trend of outsourcing non-core activities in the industry. The Corporation's primary product groups serving the components market include displays, panels, hybrid microcircuits, OEM GPS boards and infrared detectors. The majority of revenues are generated from the military aerospace sector.

As reported last year, CMC is continuing to take advantage of the growing market opportunities arising from the consolidation of the large aerospace and defence OEM companies in North America and Europe, by increasing its product offerings. New product applications in fiscal 1998 include integrated keyboard displays for Litton on the Long Bow Apache, hybrids for the F-16 and C-17 Heads-up Display program from GEC-Marconi, and various power supply contracts from U.S. customers.

Revenues from GPS board sales also increased in fiscal 1998, following expansion of the product line to include the RT-STAR, which provides sub-meter accuracy, and the SUPERSTAR, which provides increased performance and smaller size, at a significantly reduced cost. In addition to these product introductions, the Corporation expects to use NovAtel's dealer network in fiscal 1999 to increase market distribution.

Sales remain steady for infrared missile seeker assemblies, CE's largest single market for discrete, single element infrared detector arrays. A multi-year spares order for missile seeker assemblies for the U.S. Government was completed, and several new production orders began shipments in the second half of the fiscal year. Increased revenue in this area is due to growth of hybrid components and services, as customer outsourcing continues of non-core activities, following industry consolidation.

Electronic Components

- **ITT Aerospace awarded CMC an order to supply 10,500 handheld remote control radio devices to complement an existing order for 20,000 units, for delivery by the end of fiscal 1999.**

- **CMC has won orders for hybrid microcircuits, further to the development of several hybrid types for the Raytheon F-15 and F-18 aircraft upgrade programs.**

- **CMC was awarded a contract to supply junction boxes for the Bombardier CL604 business jet. This product replaces the conventional electrical wiring technology in aircraft with a modular design solution for ease of maintenance and a high mean time between failures.**

- **CMC won a contract for power supplies from Delco for the Canadian Light Armoured Vehicle program.**

- **Raytheon selected CMC's low voltage power supply for the F-15, F-18 and Harrier Advanced Target Forward Looking Infrared program.**

- **CMC's GPS engine product line continued to make inroads in a variety of demanding land, marine and airborne applications requiring accurate and reliable position data.**

- **To maximize the pursuit of business opportunities in the Original Equipment Manufacturer (OEM) sector, the ALLSTAR product line was expanded to include the RT-STAR GPS receiver, which uses real time kinematic technology and offers a position accuracy of 20 cm. The SUPERSTAR, an enhanced GPS engine, was introduced to meet large volume requirements for a smaller, more economical unit.**

Surface Transportation revenues increased to $20.0 million in fiscal 1998 from $16.9 million in fiscal 1997, due primarily to the solid growth of Northstar's marine GPS navigators, which dominated the high-end U.S. recreational market again this year. Northstar's GPS navigator products continue to enjoy strong acceptance in the marketplace.

In February 1998, Northstar introduced its new colour display navigator, designed for the larger pleasure boat and commercial shipping markets. Stronger than anticipated initial orders indicate that this product may contribute to increased revenues in fiscal 1999.

As reported last year, the Corporation recognizes that growth in this market segment is driven, in part, by the robust U.S. economy providing increasing levels of disposable income. To protect against future downturns, Northstar is pursuing other market opportunities for its GPS technology, such as precision agriculture, which continue to mature. The combination of NovAtel's and Northstar's technology will bring further opportunities to accelerate and broaden these initiatives.

Surface Transportation

- **The National Marine Electronics Association (NMEA) voted the Northstar Technologies 951XD "Best GPS Navigation Plotter" for the second year in a row. The 951 is an integrated DGPS (Differential Global Positioning System) chart plotter that features CMC's 12-channel GPS receiver and an internal, two-channel differential receiver that provides accuracy within two to three meters.**

- **The NMEA awarded the Northstar 941XD "Best GPS Navigator" for the fourth consecutive year. This product was the world's first GPS navigator to feature an internal differential receiver and a 12-channel GPS engine.**

- **Northstar introduced the new 961XD colour display navigator at the Miami Boat Show in February 1998, to enthusiastic response. This product was designed to target the larger pleasure boat and commercial shipping markets.**

- **Precision agriculture continues to be a target market for Northstar's Differential GPS receiver products, given their reliability, accuracy and flexible design.**

Consolidated Statement of Income

REVENUES AND PRODUCT MARGINS

As mentioned at the beginning of this analysis, consolidated revenues have increased by 13% to $291.5 million in fiscal 1998, compared to $257.8 million in fiscal 1997. In fiscal 1998, the Corporation benefitted from robust growth in its commercial markets. Led by the continued strength of the international airline market, commercial revenues increased to $142.5 million or 49% of consolidated revenues in fiscal 1998, from $107.7 million or 42% in fiscal 1997. However, military revenues remained at last year's levels, with the delivery of line-of-sight radios, pursuant to a contract received last fiscal year, offsetting a decline in military aerospace revenues.

Product margins, after manufacturing, selling and administration expenses, increased to 22.2% in fiscal 1998, from 21.1% in fiscal 1997, before unusual item. Improvements were due primarily to the delivery of high-margin military communications orders and improved contract performance on the completion of certain long-term military aerospace production programs. These improvements were partly offset by start-up costs, reducing margins on certain commercial products introduced in fiscal 1998. The Corporation expects margins on commercial products to improve as volumes increase, and will continue to pursue cost reduction and productivity measures to offset the expected decline in military revenues.

RESEARCH AND DEVELOPMENT

R&D expenditures amounted to $26.7 million or 9.2% of revenues in fiscal 1998, compared to $25.3 million or 9.8% of revenues in fiscal 1997. These amounts are net of provincial and federal R&D government participation of $5.0 million in fiscal 1998, compared to $4.3 million in fiscal 1997. R&D spending was increased, compared to last year's levels, to meet future market opportunities, primarily for commercial aerospace and space electronics applications. In fiscal 1998, approximately 67% of the Corporation's R&D expenditures was directed towards commercial markets. The Corporation's R&D programs include the support of new product development strategies and the continued enhancement of existing products, including, amongst others, line-of-sight radios, Satcom antennas, GPS aerospace and surface applications, infrared product applications and display technologies.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased slightly to $10.9 million in fiscal 1998, from $10.7 million in fiscal 1997. A reduction in amortization, following the writedown of goodwill last year, was offset by higher levels of depreciation, due to increasing levels of capital investment in fiscal 1997 and 1998, as discussed later in this analysis.

UNUSUAL ITEM

Fiscal 1997 operating income was reduced by $16.3 million due to the writedown of goodwill and other charges related to the facsimile switching business (see Note 9 to the Consolidated Financial Statements). In fiscal 1997, marketing efforts for the facsimile product were reduced to focus on resolving certain technical and contractual issues caused by problems inherent in earlier product software releases, resulting in a writedown of goodwill to reflect current market conditions and the creation of certain contractual and restructuring provisions. Approximately $1.0 million was spent against these provisions in fiscal 1998, with further expenditures expected over the next two years.

OTHER INCOME AND EXPENSES

An unrealized foreign exchange gain of $1.9 million was recorded against the Corporation's U.S. dollar short-term investments at March 31, 1998, due to a weakening of the Canadian dollar from March 31, 1997. An unrealized exchange gain of $1.6 million was recorded last year.

Interest income increased to $13.8 million in fiscal 1998 from $12.9 million in fiscal 1997, due primarily to higher cash and short-term investment balances denominated in U.S. dollars.

INCOME TAXES

Income tax expense increased to $14.2 million in fiscal 1998 from $11.0 million in fiscal 1997, due primarily to the increase in operating income. The effective income tax rate decreased, below normal levels, in fiscal 1998 to 33.6% from 68.8% last year. The high effective tax rate in fiscal 1997 resulted from the non-deductible goodwill writedown associated with the facsimile switching business. Fiscal 1998 also benefitted from the utilization of certain capital loss carryforwards.

NET INCOME

Net income increased to $28.0 million or $1.16 per share in fiscal 1998, compared to $5.0 million or $0.21 per share in fiscal 1997 after unusual item. The improvement is due primarily to increased revenues from CMC's commercial markets and higher product margins on military orders, which increased operating income to $27.0 million or 9.3% of revenues, compared to $18.3 million or 7.1% of revenues last year before unusual item. In addition, in fiscal 1997, CE reached a settlement with the U.S. Government in respect of its 1989 contract termination for the design and production of an airborne radio. Net settlement proceeds of $2.0 million before tax were included in fiscal 1997 operating income.

Backlog

Order backlog decreased to $178 million at March 31, 1998, from $205 million last year, due primarily to a reduction in military communications and aerospace orders. The delivery of line-of-sight radio orders this fiscal year, the transition from development to production on certain military aerospace programs, and program delays for replacement orders, contributed to the reduction in the Corporation's order backlog. As a result, management has reduced its sales outlook for fiscal 1999.

Consolidated Balance Sheet

At March 31, 1998, total assets amounted to $496 million, compared to $443 million at March 31, 1997. Cash and short-term investment balances increased to $307 million at March 31, 1998, from $268 million at March 31, 1997, as is explained in the Statement of Changes in Financial Position analysis.

Regarding cash and short-term investment balances, the Corporation's investment policy requires it to limit investments to high-grade commercial paper or government securities. At March 31, 1998, the cash and short-term investments were $131 million held in U.S. dollars, and $121 million held in Canadian dollars. Subsequent to March 31, 1998, as described in Note 14 of the Consolidated Financial Statements, the Corporation acquired a controlling interest in NovAtel Inc. at a price of approximately Canadian $70 million, reducing its cash reserves accordingly.

Accounts receivable balances increased to $65 million, compared to $51 million last year. This 28% increase is due to increased revenues, combined with higher military line-of-sight radio shipments in the final two months of fiscal 1998, compared to fiscal 1997. Working capital levels have declined from last year, due primarily to an $18 million increase in accounts payable and accrued liabilities, compared to fiscal 1997.

Inventories declined to $42.3 million at March 31, 1998, after deduction of progress payments from customers, from $44.9 million at March 31, 1997. This reduction is due primarily to the completion of certain long-term production contracts and higher progress payments received at CE. Inventory management is becoming increasingly important as the Corporation expands further into commercial markets, where progress payments are less common and shorter lead times are being demanded, compared to military customers. The associated risks are being mitigated by various initiatives, including long-term supplier agreements with just-in-time delivery requirements.

At March 31, 1998, the Corporation's only indebtedness was $8.7 million of Industrial Development Revenue Bonds issued by CE and secured by an irrevocable letter of credit agreement. The letter of credit agreement restricts the incurrence of additional indebtedness and the payment of dividends by CE, and requires the maintenance of minimum tangible net worth with respect to CE.

Consolidated Statement of Changes in Financial Position

Cash provided by operating activities amounted to $49.7 million for the year ended March 31, 1998, a slight decrease from the $51.9 million recorded in the previous year, due primarily to the increase in accounts receivable balances discussed earlier.

Cash used in investment activities increased to $10.4 million in fiscal 1998, compared to $8.8 million in fiscal 1997, due to an increase in fixed asset additions of $3.8 million over last year. The Corporation is in the initial phase of replacing its business information systems at its Canadian and Northstar locations. The investment increase in fiscal 1998 is due primarily to the establishment of the Information Technology infrastructure in support of these implementations. Fiscal 1999 capital expenditures are expected to increase, compared to this year, when these systems are to be implemented. The Corporation continued to invest in manufacturing equipment and engineering design tools, to increase productivity and support the Corporation's revenue growth.

In fiscal 1998, the Corporation completed the demolition of its vacated Trenton Avenue facility. Proceeds from sale of fixed assets includes $1.8 million from the sale of available lots for residential construction, under the terms of a February 1997 agreement with the developer. The developer is expected to acquire the remaining lots over the next four years.

The Board of Directors determines the level of dividend payments, based on the Corporation's operating profitability. Dividends paid in fiscal 1998 were $0.14 per share. The last semi-annual dividend, declared on November 13, 1997, and paid in December 1997, was $0.07 per share. The Board of Directors has approved a July 1998 dividend payment of $0.21 per share for the year ended March 31, 1998.

The Corporation has an agreement with its banker for a committed credit facility totalling $30 million. At March 31, 1998, none of this facility was utilized. The Corporation's cash and temporary investment balances, the line of credit, together with internally generated cash flow and other available sources of financing, are expected to be sufficient to meet the Corporation's cash requirements.

General Risks and Uncertainties

CMC's consolidated sales and earnings are influenced by several external factors, the most significant of which are currency exchange rates and the resolution of contract performance criteria.

The Canadian dollar has averaged nearly 71 cents U.S. in fiscal 1998, compared to 73 cents U.S. in fiscal 1997. This level of Canadian dollar relative to the U.S. dollar benefits the Corporation, enhancing its ability to offer more competitive prices to its U.S. and other international customers, across all market segments.

In fiscal 1998, approximately 77% of the Corporation's sales originating from Canada were in U.S. dollars, compared to 64% last year. The Corporation manages its foreign currency risk by negotiating foreign exchange protection clauses with its customers or by entering into forward foreign exchange contracts. The Corporation does not engage in a speculative hedging program. At March 31, 1998, the Corporation had forward sales contracts in the amount of U.S. $60 million, at an average exchange value of $1.4054 (see Note 13 to the Consolidated Financial Statements).

Contracting with governments and large commercial organizations requires the ability to manage complex technical, financial and administrative specifications. A large proportion of the Corporation's revenues, particularly in the military aerospace and communications segments, are derived from such contracts,

which are often long-term, fixed price contracts with multiple deliveries. The level of profitability to be recorded against these deliveries often relies on estimates of costs to complete the remaining work, which are regularly reviewed, based on past experience and performance. To mitigate these risks, project phase reviews are conducted by multidisciplinary teams at the outset of the bid, and at stages through the program. In addition, regular contract status reviews are held to assess technical, schedule and cost performance. The Corporation's senior management regularly participates in these reviews.

YEAR 2000

The Corporation has a formal program organization, which is actively addressing the "Year 2000" issue and has a documented process in place to cover the entire life cycle of the program, well past the millenium transition. Active and legacy products, business systems, engineering systems and building infrastructure, are being investigated to determine "Year 2000" issues. As mentioned previously, the Corporation is in the early implementation phase of replacing its business information systems at its Canadian and Northstar locations. While these decisions were made independently of and preceded the "Year 2000" program, upgrades such as these normally undertaken for productivity improvements also serve to reduce "Year 2000" risks.

To date, an inventory of computer-based assets has been compiled and two projects launched to fix systems deemed to be noncompliant; certain forward looking programs in the Corporation's computer system are being modified to ensure trouble-free operation while the new system is being implemented, and the development of a software upgrade for the facsimile switching product is nearing completion. In addition, critical suppliers have been contacted to determine security of supply before and after the millenium transition, while customers are being informed, in a timely manner, when compliance problems are discovered in the products which CMC supplies to them.

Resources and skills to complete this program are available within the Corporation. The objective is to have all corrective actions implemented by the end of December 1998, leaving the entire 1999 calendar year to deploy and test solutions in real operating environments. The assessment of "Year 2000" issues has not been completed. However, the costs of remediation are not expected to have a material adverse impact on the Corporation's financial condition.

EMPLOYEE RELATIONS

Labour contracts cover approximately 55% of CMC's Canadian employees, the majority being employed at the Corporation's Ville Saint-Laurent facility. The three-year contract with the CAW (Plant Union) representing hourly employees was signed in March 1997. The three-year contract with the CAW (Office Union) representing salaried employees was signed in September 1997. The five-year contract with the association representing engineers and scientists, located in the province of Quebec, will expire in September 1999.

Consolidated Balance Sheet

March 31 (in thousands)	1998	1997
Assets		
Current assets		
Cash and short-term investments, at cost, including accrued interest	$ 306,655	$ 268,444
Accounts receivable	64,920	50,819
Income taxes refundable	2,130	3,513
Inventories (Note 2)	42,304	44,877
Prepaid expenses	869	664
Deferred income taxes	10,057	6,527
	426,935	374,844
Fixed assets (Note 3)	60,912	59,807
Goodwill, at cost, less accumulated amortization of $5,977,000 (1997 - $5,051,000)	8,081	8,684
	$ 495,928	$ 443,335
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 90,535	$ 72,620
Income taxes payable	11,677	5,201
	102,212	77,821
Deferred income taxes	3,060	2,216
Long-term debt (Note 4)	8,668	8,321
Shareholders' equity		
Stated capital		
Authorized capital - unlimited		
24,113,468 (1997 - 24,074,168) common shares issued (Note 5)	14,362	13,800
Retained earnings	357,695	333,066
Cumulative translation adjustment (Note 6)	9,931	8,111
	381,988	354,977
	$ 495,928	$ 443,335

APPROVED BY THE BOARD:

William I. M. Turner, Jr., C.M.
Director

Mark H. Ronald
Director

Consolidated Statement of Income

Year ended March 31 (in thousands)	1998	1997
Revenues (Note 7)	$ 291,544	$ 257,768
Operating expenses		
Manufacturing, selling and administration	226,896	203,409
Research and development, net of government participation of $5,024,000 (1997 - $4,337,000)	26,683	25,316
Depreciation and amortization	10,926	10,743
	264,505	239,468
	27,039	18,300
Unusual item (Note 9)	-	16,369
Operating income	27,039	1,931
Foreign exchange gain on short-term investments	1,850	1,583
Interest		
Interest income on short-term investments	13,824	12,914
Interest expense on long-term debt	(478)	(457)
Income before income taxes	42,235	15,971
Provision for income taxes (Note 8)	14,232	10,997
Net income	$ 28,003	$ 4,974
Net income per common share (in dollars)	$ 1.16	$ 0.21

Consolidated Statement of Retained Earnings

Year ended March 31 (in thousands)	1998	1997
Retained earnings, beginning of year	$ 333,066	$ 331,447
Net income	28,003	4,974
	361,069	336,421
Dividends - 14 cents per common share (1997 - 14 cents)	3,374	3,355
Retained earnings, end of year	$ 357,695	$ 333,066

Consolidated Statement of Changes in Financial Position

Year ended March 31 (in thousands)	1998	1997
Cash provided by (used in)		
Operating activities		
Net income	$ 28,003	$ 4,974
Depreciation and amortization	10,926	10,743
Goodwill writedown (Note 9)	-	9,635
Deferred income taxes	785	(248)
Gain on sale of fixed assets	(213)	(73)
Net change in non-cash working capital balances	10,232	26,830
	49,733	51,861
Investment activities		
Additions to fixed assets, net of government assistance (Note 3)	(12,802)	(9,038)
Proceeds from sale of fixed assets	2,382	224
	(10,420)	(8,814)
Financing activities		
Dividends	(3,374)	(3,355)
Issuance of common shares	562	1,876
	(2,812)	(1,479)
Effect of fluctuations of exchange rates on cash and short-term investments	1,710	1,038
Total cash provided during the year	38,211	42,606
Cash and short-term investments, beginning of year	268,444	225,838
Cash and short-term investments, end of year	$ 306,655	$ 268,444

Notes to Consolidated Financial Statements

(all tabular amounts are in thousands of dollars)

1. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying financial statements consolidate the accounts of Canadian Marconi Company and those of companies it controls, all of which are majority owned, together with the Corporation's 50% share of assets, liabilities, revenues and expenses of a corporate joint venture.

(b) Inventories

Raw materials and bought-out components, work in process, and finished products are valued at the lower of cost and estimated net realizable value. The cost is determined using the first-in, first-out method for raw materials and bought-out components. The cost of work in process and finished products includes the cost of raw materials, direct labour and associated overhead. Deductions are made for progress payments received and any losses incurred on contracts not completed at the balance sheet date.

(c) Fixed assets and depreciation

Fixed assets retired or disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of depreciable assets, as follows:

Buildings	25 to 40 years
Plant, machinery and equipment	up to 10 years
Equipment on rental	up to 4 years

(d) Income taxes

The Corporation provides for income taxes based on income included in the financial statements regardless of when such income is subject to payment of taxes under the tax laws. Investment tax credits relating to scientific research and experimental development have been accounted for using the cost reduction method, whereby the expenditure is reduced by the credits.

(e) Recognition of revenue

Revenue is normally recognized when products are shipped or services rendered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total cost of completing the contracts. There were no contracts accounted for as major long-term contracts in 1998 and 1997.

(f) Goodwill

Goodwill represents the excess of the purchase price of acquired companies and businesses over the value assigned to the identifiable assets acquired and is being amortized on a straight-line basis over a period of ten to twenty-five years. The Corporation assesses at each balance sheet date whether there has been a permanent impairment in the value of goodwill. As a result of these assessments, the Corporation wrote down the carrying value of the goodwill at March 31, 1997 (see Note 9).

(g) Translation of foreign currencies

For Canadian operations, assets and liabilities in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Amounts entering into results of operations are translated at rates in effect at the date of the transaction. Exchange gains and losses are included in income.

For foreign subsidiaries, all of which are self-sustaining U.S. operations, assets and liabilities are translated at exchange rates in effect at the balance sheet date. The resulting gains or losses are accumulated in the cumulative translation adjustment component of shareholders' equity. Revenue and expense items are translated at average exchange rates prevailing during the period.

Gains or losses on forward foreign exchange contracts are recognized at contract maturity and are included in revenues.

(h) Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted in 1998.

2. Inventories

	1998	1997
Raw materials and bought-out components	$ 10,267	$ 8,523
Work in process	31,335	35,019
Finished products	7,410	6,510
	49,012	50,052
Progress payments	(6,708)	(5,175)
	$ 42,304	$ 44,877

3. Fixed assets

	1998			1997		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	$ 8,716	$ -	$ 8,716	$ 8,639	$ -	$ 8,639
Buildings	47,353	15,216	32,137	44,396	10,953	33,443
Plant, machinery and equipment	111,138	92,178	18,960	100,347	85,576	14,771
Equipment on rental	1,278	1,101	177	1,258	1,049	209
Property held for disposition	922	-	922	14,226	11,481	2,745
	$ 169,407	$ 108,495	$ 60,912	$ 168,866	$ 109,059	$ 59,807

Capital expenditures authorized and committed at March 31, 1998 were $3,950,000.
There was no direct government assistance applied to fixed asset additions in the fiscal year (1997 - $300,000).

4. Long-term debt

	1998	1997
Variable interest rate (rate varies with U.S. prime)		
Industrial Development Revenue Bonds, due		
September 1, 2015 - U.S. $6,119,000 (1997 - U.S. $6,011,000)	$ 8,668	$ 8,321

The Industrial Development Revenue Bonds issued by Cincinnati Electronics Corporation are secured by an irrevocable letter of credit agreement which includes restrictions on that subsidiary relating to the maintenance of minimum net worth, payment of dividends and incurrence of additional indebtedness.

5. Share option plan

The Corporation maintains a share option plan for officers and selected senior managers of the Corporation. Under the plan, participants are granted options to purchase common shares of the Corporation at the market value on the date prior to the grant. These options are first exercisable after three years and expire seven years from the date of the grant. Options in respect of a total of 750,000 common shares have been reserved for the plan of which 340,700 common shares have been issued, leaving a balance of 409,300 options at March 31, 1998, 263,300 of which have been granted, as hereafter set forth, and 146,000 of which are available for allotment. During the year ended March 31, 1998, 39,300 common shares have been issued (1997 - 135,700).

Granted in fiscal year	Weighted average price per common share	Outstanding at March 31, 1998
1992	$ 14.25	9,500
1993	$ 14.25	9,900
1994	$ 14.88	6,900
1997	$ 15.16	42,800
1998	$ 23.00	194,200
		263,300

6. Cumulative translation adjustment

	1998	1997
Balance at beginning of year	$ 8,111	$ 6,978
Effect of changes in exchange rates during the year on the net investment in U.S. self-sustaining subsidiaries	1,820	1,133
Balance at end of year	$ 9,931	$ 8,111

7. Segmented information

The Corporation is engaged in substantially one class of business: the design, manufacture and sale of electronic products. Included in total revenues of Canada are export sales in the fiscal year amounting to $171,263,000 (1997 - $132,915,000). The point of origin (the location of the selling organization) of revenues and the location of assets determine the geographic location, as follows:

	Canada		United States		Consolidated	
	1998	1997	1998	1997	1998	1997
Revenues	$ 204,049	$ 175,038	$ 87,495	$ 82,730	$ 291,544	$ 257,768
Income before income taxes	$ 27,019	$ 13,721	$ 15,216	$ 2,250	$ 42,235	$ 15,971
Identifiable assets at March 31	$ 359,873	$ 322,442	$ 136,055	$ 120,893	$ 495,928	$ 443,335

8. Provision for income taxes

	1998	1997
Provision for income taxes based on a Canadian income tax rate of 37.07% (1997 - 42.46%)	$ 15,724	$ 6,782
Increase (decrease) in taxes resulting from:		
Capital loss carryforward	(1,571)	-
Research and development tax (benefit) on incentives	159	(100)
Non-taxable portion of gain on exchange	(209)	(179)
Income tax rate differential and effects of unrecorded timing differences in U.S. subsidiaries	(216)	981
(Deductible) non-deductible goodwill amortization	(57)	3,320
Other items - net	402	193
	$ 14,232	$ 10,997

9. Unusual item

The unusual item, at March 31, 1997, consisted of a writedown of the carrying value of goodwill of $9,635,000 and contractual and restructuring provisions of $6,734,000 relating to the Corporation's facsimile switching business further to problems inherent in earlier product software releases encountered by the Corporation.

10. Related party transactions

The General Electric Company, p.l.c. (GEC) of London, England, indirectly owns 51% of the outstanding common shares of the Corporation. During the fiscal year, the Corporation's sales to GEC and its subsidiaries amounted to $5,496,000 (1997 - $5,803,000). The Corporation purchased goods and services from GEC and its subsidiaries amounting to $9,703,000 (1997 - $10,803,000). At March 31, 1998, the Corporation had accounts receivable and accounts payable with these associated companies amounting to $519,000 (1997 - $588,000) and $404,000 (1997 - $3,726,000), respectively. The above transactions have been contracted at fair market value.

11. Pension plans

The Corporation maintains a number of pension plans to provide retirement income to its employees. The benefits provided to retiring employees under the plans are determined by calculations which include both defined benefit and defined contribution schemes. Based on actuarial evaluations of the defined benefit portion of these pension plans, at March 31, 1998, the present value of the accrued pension benefits is $68,919,000 (1997 - $62,191,000) and the pension fund assets are valued at $75,435,000 (1997 - $63,865,000).

12. Contingencies

Sales of the Corporation's products are primarily subject to the provisions of contracts with governments and commercial organizations. Management believes that adequate provision has been made in the consolidated financial statements for disputes and other normal uncertainties in connection with its business.

13. Financial instruments

(a) Derivative financial instruments

The Corporation mitigates the risk associated with foreign exchange rate fluctuations related to the U.S. dollar transactions from its Canadian operations by entering into forward foreign exchange contracts as normal business transactions. Through these contracts, the Corporation is engaged to sell U.S. dollars in future periods at specific rates. Derivative financial instruments are not used for speculative purposes.

At March 31, the open contracts' details are as follows:

	Average rate (Canadian dollars)		Contract amount (thousands of U.S. dollars)	
	1998	1997	**1998**	1997
Forward foreign exchange contracts - 0 to 12 months	**$ 1.4024**	$ 1.3675	**$ 50,000**	$ 54,500
Forward foreign exchange contracts - over 12 months	**$ 1.4206**	$ -	**$ 10,000**	$ -

The fair value of the forward foreign exchange contracts is represented by the estimated amounts that the Corporation would receive or pay to settle the contracts at the balance sheet date, taking into account the unrealized gain or loss on open contracts.

	1998	1997
Forward foreign exchange contracts - unrealized gain	**$ 178**	$ -
Forward foreign exchange contracts - unrealized loss	**$ (849)**	$ (783)

13. Financial instruments (cont'd)

(b) Credit risk

Cash and forward contracts are in place with major financial institutions. Short-term investments are comprised of bonds, commercial papers and guaranteed loans of major corporations, governments and financial institutions. The credit risk concentration on accounts receivable balance is limited due to the variety of geographical and business natures of the Corporation's customers.

(c) Interest-bearing financial instruments

The Corporation's exposure to interest-bearing financial instruments as at March 31, 1998 is as follows:

Short-term investments, maturing within 1 year .... Fixed interest rate

Long-term debt .... Floating interest rate

The face value of short-term investments totals $292,648,000 at March 31, 1998 (1997 - $264,748,000), including U.S. $126,360,000 (1997 - U.S. $150,056,000) and their weighted average interest rate is 5.38% (1997 - 5.13%).

(d) Fair value of financial instruments

The following methods and assumptions have been used to estimate the fair value of the financial instruments:
Cash and short-term investments, accounts receivable, accounts payable and accrued liabilities are valued at their carrying amounts on the balance sheet, which represent an appropriate estimate of their fair values due to their short-term maturities.
The fair value of the long-term debt is estimated to be the amount due at maturity, which is U.S.$8,000,000 in September 2015.

(e) Line of credit

The Corporation has an agreement with its banker for a committed credit facility totalling $30,000,000. At March 31, 1998 and 1997, none of this facility was utilized.

14. Subsequent event

On April 17, 1998, the Corporation acquired approximately 58% of the outstanding common shares of NovAtel Inc. of Calgary, Alberta, for a cash consideration of approximately $70,000,000. The shares of NovAtel Inc. are publicly traded on NASDAQ. The acquisition will be accounted for by the purchase method. This business designs, markets and supports a broad range of products that determine precise geographic location using the Global Positioning System.

Management's Responsibility for Financial Reporting

The accompanying Consolidated Financial Statements of Canadian Marconi Company are the responsibility of management and have been approved by the Board of Directors.

The Consolidated Financial Statements have been prepared by management in accordance with generally accepted accounting principles. These Financial Statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the Consolidated Financial Statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

Canadian Marconi Company's policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the Consolidated Financial Statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the Consolidated Financial Statements and the external auditors' report. The Committee reports its findings to the Board for consideration by the Board when it approves the Consolidated Financial Statements for issuance to the shareholders.

The Consolidated Financial Statements have been audited by Price Waterhouse, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

William I.M. Turner, Jr., C.M.
Chairman
May 28, 1998

Gregory A. Yeldon
Vice President and Chief Financial Officer

Auditors' Report

To the Shareholders of Canadian Marconi Company

We have audited the consolidated balance sheets of Canadian Marconi Company as at March 31, 1998 and 1997 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants
Montreal, Quebec
May 8, 1998

Quarterly Financial Information

(in thousands of dollars, except as otherwise stated)
(unaudited)

Year ended March 31, 1998

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	$ 60,373	$ 59,331	$ 78,296	$ 93,544	$ 291,544
Net income	$ 3,714	$ 3,609	$ 10,128	$ 10,552	$ 28,003
Net income per common share (in dollars)	$ 0.15	$ 0.15	$ 0.42	$ 0.44	$ 1.16

Year ended March 31, 1997

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	$ 55,007	$ 57,457	$ 70,271	$ 75,033	$ 257,768
Net income (loss)	$ 3,283	$ 2,661	$ 4,944	$ (5,914)	$ 4,974
Net income (loss) per common share (in dollars)	$ 0.14	$ 0.11	$ 0.21	$ (0.25)	$ 0.21

Common Share Information

Market Price Range by Quarter

The Toronto Stock Exchange and the Montreal Exchange are the principal markets on which the Corporation's shares are traded. The following table sets forth the high and low sales prices for each quarter of the last two fiscal years.

	1998		1997	
	High	Low	High	Low
1st Quarter	$ 27.00	$ 17.75	$ 14.50	$ 12.25
2nd Quarter	$ 24.75	$ 18.75	$ 16.95	$ 13.00
3rd Quarter	$ 23.25	$ 18.50	$ 16.25	$ 14.50
4th Quarter	$ 23.00	$ 17.60	$ 18.50	$ 14.90

CANADIAN MARCONI COMPANY

Corporate Information

Directors

▪ **H. Anthony Arrell**
Chairman and Chief Executive Officer
Burgundy Asset Management Ltd.
Toronto, Ontario, Canada

⋆▪▪ **Howard L. Beck, Q.C.**
Chairman
Wescam Inc.
Toronto, Ontario, Canada

W. James Close
President and Chief Executive Officer
Canadian Marconi Company
Ville Saint-Laurent, Quebec, Canada

Pierre Dufour
Vice President
International Engineering and Construction
L'Air Liquide S.A.
Paris, France

•▪ **Jack R. Fryer**
Strategic Planning Director
The General Electric Company, p.l.c.
London, England

(r) •• **Stephen A. Jarislowsky, O.C.**
Chairman
Jarislowsky, Fraser Limited
Montreal, Quebec, Canada

⋆⋆ **John R. Killick**
Corporate Director
Ottawa, Ontario, Canada

⋆ **Ian G. King**
Finance Director
GEC-Marconi Limited
Stanmore, England

Mark H. Ronald
President
GEC-Marconi North America, Inc.
Wayne, New Jersey, U.S.A.

Brian H. Rowe
Chairman Emeritus
GE Aircraft Engines
General Electric Company
Cincinnati, Ohio, U.S.A.

⋆⋆• **Reed Scowen**
President
Reedsco Inc.
Montreal, Quebec, Canada

(r) •• **The Hon. Ian D. Sinclair, O.C., Q.C.**
Corporate Director
Toronto, Ontario, Canada

•• **William I.M. Turner, Jr., C.M.**
Chairman and Chief Executive Officer
Exsultate Inc.
Montreal, Quebec, Canada

⋆ Member Audit Committee
⋆⋆ Chairman Audit Committee
• Member Defence Security Committee
•• Chairman Defence Security Committee
• Member Compensation Committee
•• Chairman Compensation Committee
▪ Member Nominating and Corporate Governance Committee
▪▪ Chairman Nominating and Corporate Governance Committee
(r) Retiring at the August Annual General Meeting

Officers

Alan F. Barker
Vice President, Communications Systems
Ville Saint-Laurent, Quebec, Canada

Sylvain Bédard
Vice President, Operations
Ville Saint-Laurent, Quebec, Canada

W. James Close
President and Chief Executive Officer
Ville Saint-Laurent, Quebec, Canada

Gregg R. Fawkes
Vice President, Business Development
and Strategic Planning
Ville Saint-Laurent, Quebec, Canada

Michel Guilbault
Vice President, Human Resources
Ville Saint-Laurent, Quebec, Canada

Marcia McKenzie
Treasurer
Ville Saint-Laurent, Quebec, Canada

Guy J. Paquette
Vice President, General Counsel
and Corporate Secretary
Ville Saint-Laurent, Quebec, Canada

Sol Rauch
Vice President, Aerospace
Kanata, Ontario, Canada

Jean-Denis Roy
Assistant Secretary
Ville Saint-Laurent, Quebec, Canada

William I.M. Turner, Jr., C.M.
Chairman of the Board
Canadian Marconi Company
Ville Saint-Laurent, Quebec, Canada

Gregory A. Yeldon
Vice President and Chief Financial Officer
Ville Saint-Laurent, Quebec, Canada

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http://www.marconi.ca

Subsidiaries

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7500 Innovation Way
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Tel. (513) 573-6100 Fax (513) 573-6290
Web site: http://www.cinele.com
Dr. James T. Wimmers, Chairman,
President and Chief Executive Officer

NORTHSTAR TECHNOLOGIES
a Division of CMC Electronics, Inc.
30 Sudbury Road
Acton, Massachusetts, U.S.A. 01720
Tel. (978) 897-6600 Fax (978) 897-8264
Web site: http://www.northstarcmc.com
Scott Lewis, General Manager

NOVATEL INC.
1120 - 68th Avenue N.E.
Calgary, Alberta, Canada T2E 8S5
Tel. (403) 295-4500 Fax (403) 295-0230
Web site: http://www.novatel.ca
Pascal E. Spothelfer, President and
Chief Executive Officer

Stock Exchanges (CMW)

The Toronto Stock Exchange
~~The Montreal Exchange~~
American Stock Exchange

Transfer Agent and Registrar

MONTREAL TRUST COMPANY
1800 McGill College Avenue
Montreal, Quebec, Canada H3A 3K9
Tel. (514) 982-7555

Auditors

PRICEWATERHOUSE COOPERS
1250 René-Lévesque Boulevard West, Suite 3500
Montreal, Quebec, Canada H3B 2G4
Tel. (514) 938-5600

U.S. Cash Dividend Plan

Shareholders wishing to receive dividends in U.S. dollars may obtain detailed information by communicating with Montreal Trust Company.

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